

Message Text

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INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

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INFO AMEMBASSY COPENHAGEN PRIORITY

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TAGS: ECON, OECD

SUBJECT: EDRC ANNUAL REVIEW OF DENMARK, JUNE 21

REF: EDR(74)17

1. SUMMARY: REFDOK DESCRIBES 1973 AS YEAR OF LOST OPPORTUNITIES FOR DENMARK, AS EXCESSIVE DOMESTIC DEMAND SPILLED OVER INTO IMPORTS AND PRICES AND EXPORT GROWTH WAS LIMITED BY CAPACITY CONSTRAINTS. OUTLOOK FOR 1974 IS FOR REDUCED DOMESTIC AND FOREIGN DEMAND LEADING TO FLATTER IMPORT TREND AND SLOWDOWN OF ECONOMIC GROWTH. RESTRICTIVE POLICY STANCE WILL BE MAINTAINED, BUT NEVERTHELESS PRICES EXPECTED RISE MORE THAN 15 PERCENT AND CURRENT ACCOUNT DEFICIT WILL BE VERY LARGE. REFDOK SENT INTERNATIONAL AIRMAIL TO EMBASSY COPENHAGEN JUNE 15. EMBASSY COMMENTS WOULD, OF COURSE, BE WELCOME. END SUMMARY.

2. PERFORMANCE IN 1973: REFDOK NOTES THAT EXCESSIVE DEMAND CONDITIONS IN 1973 WERE PARTLY DUE TO INSUFFICIENT DEGREE OF DEMAND RESTRAINT AND LOST OPPORTUNITIES

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IN FIELD OF MONETARY AND FISCAL POLICY. SECRETARIAT

BELIEVES DANES COULD HAVE MADE GREATER USE OF OPEN MARKET OPERATIONS AND RESTRICTIONS ON PRIVATE BANK CREDITS, AS WELL AS HOLDING DOWN EXCESS BUDGETARY EXPENDITURES. IF PROPER DEGREE OF DEMAND RESTRAINT HAD BEEN FOLLOWED, DENMARK MIGHT HAVE AVOIDED SEVERE CAPACITY CONSTRAINTS IN EXPORT INDUSTRIES AND BEEN ABLE TO RESPOND TO STRONG FOREIGN DEMAND.

3. OUTLOOK FOR DEMAND AND GROWTH IN 1974. REFDOC SEES SLOWDOWN IN PACE OF ECONOMIC GROWTH RESULTING FROM CONTINUED MAINTENANCE OF FISCAL RESTRAINT, TIGHTER MONETARY CONDITIONS, SEVERE QUANTITATIVE AND FINANCIAL RESTRICTIONS ON RESIDENTIAL CONSTRUCTION, CONTRACTIONARY EFFECTS OF OIL PRICE RISES, AND LESS BUOYANT WORLD TRADE OUTLOOK. PRIVATE CONSUMPTION, REFLECTING DAMPENING EFFECTS OF RECENT TAX MEASURES, EXPECTED RISE ONLY 2 PERCENT IN REAL TERMS. PRIVATE INVESTMENT AND STOCK-BUILDING EXPECTED TO WEAKEN FROM 1973 BOOM LEVELS DUE TO TIGHTER CREDIT MARKET CONDITIONS, ALTHOUGH REMAINING AT HIGH LEVEL. HOUSING INVESTMENT WILL DECLINE SHARPLY DUE TO RESTRICTIONS ON BUILDING STARTS AND ON MORTGAGE LENDING. EXPORT MARKETS MAY EXPAND ONLY HALF AS FAST AS IN 1973, THOUGH STEADY GROWTH IN MANUFACTURING EXPORTS CAN BE EXPECTED. LABOR MARKETS WILL BE UNDER LESS PRESSURE THAN IN 1973, AND UNEMPLOYMENT WILL PROBABLY NOT RISE TO ANY GREAT EXTENT.

4. OUTLOOK FOR WAGES AND PRICES: SECRETARIAT SEES COMBINATION OF RAPIDLY RISING IMPORT PRICES AND GENERAL USE OF ESCALATION CLAUSES RESULTING IN SELF-GENERATING WAGE-PRICE-WAGE SPIRAL. UNIT WAGE COSTS SEEN RISING BY 17 PERCENT, ADDING 11 PERCENTAGE POINTS TO CPI, WHICH EXPECTED TO RISE BY 16 PERCENT IN 1974.

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5. BALANCE OF PAYMENTS: REFDOK EXPECTS WEAKENING DOMESTIC DEMAND WILL PERMIT SHIFT OF RESOURCES TO EXPORT SECTOR SO THAT CAPACITY SHORTAGES WILL NO LONGER BE MAJOR CONSTRAINT ON EXPORT GROWTH. IMPORTS WILL RISE ONLY 1 PERCENT IN VOLUME BECAUSE OF SLOWDOWN IN ECONOMIC GROWTH AND EFFECTS OF RECENT TAX MEASURES. CURRENT ACCOUNT DEFICIT SEEN AT KR 7.5 BILLION, WITH NON-OIL DEFICIT UNCHANGED FROM 1973.

6. DEMAND MANAGEMENT POLICY: SECRETARIAT CONSIDERS MAINTENANCE OF OVERALL DEMAND RESTRAINT TO BE APPROPRIATE STANCE FOR REDUCING NON-OIL DEFICIT AND CONTAINING PRESSURE OF DEMAND. IT SUGGESTS, HOWEVER, THAT TAX MEASURES OF MAY 1974 MAY NOT BE BEST WAY OF ACHIEVING THIS RESULT. IN ADDITION TO TRADITIONAL DEMAND MANAGEMENT TOOLS, SECRETARIAT ENCOURAGES CONTINUED TRIPARTITE EFFORTS TO REACH AGREEMENTS INVOLVING TRADE-OFF BETWEEN TAX CUTS AND WAGE INCREASES.

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7. MEDIUM-TERM PROSPECTS: SECRETARIAT BELIEVES THERE IS SERIOUS IMBALANCE IN ALLOCATION OF DOMESTIC RESOURCES, AS REFLECTED IN TEN-YEAR STRING OF CURRENT ACCOUNT DEFICITS. IN ORDER TO SUSTAIN 4.3 PERCENT GDP GROWTH AND ELIMINATE CURRENT ACCOUNT DEFICIT BY 1977, DENMARK WILL HAVE TO INCREASE PRIVATE PRODUCTIVE INVESTMENT AND EXPORT GROWTH AT EXPENSE OF PRIVATE CONSUMPTION, PUBLIC EXPENDITURE ON GOODS AND SERVICES, AND RESIDENTIAL CONSTRUCTION. SECRETARIAT CONSIDERS NECESSARY RESOURCE REDISTRIBUTION WILL BE DIFFICULT TO ACHIEVE IN CURRENT CLIMATE OF RESISTANCE TO HIGHER TAXATION.
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